

**REPORT OF THE AUDIT OF THE
ELLIOTT COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2009**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ELLIOTT COUNTY FISCAL COURT

June 30, 2009

The Auditor of Public Accounts has completed the audit of the Elliott County Fiscal Court for fiscal year ended June 30, 2009. We have issued unqualified opinions, based on our audit and the reports of the other auditors, on the governmental activities, each major fund, and aggregate remaining fund information financial statements of Elliott County, Kentucky.

Financial Condition:

The fiscal court had net assets of \$1,110,864 as of June 30, 2009. The fiscal court had unrestricted net assets of \$208,955 in its governmental funds as of June 30, 2009, with total net assets of \$1,110,864. The fiscal court had total debt principal as of June 30, 2009 of \$4,552,348 with \$278,455 due within the next year.

Report Comments:

- | | |
|---------|--|
| 2009-01 | The Fiscal Court Lacks Adequate Segregation Of Duties |
| 2009-02 | The Fiscal Court Should Maintain An Accurate And Complete Listing Of Fixed Assets |
| 2009-03 | The Fiscal Court Should Not Transfer Funds From The Library Bond Fund And Should Ensure Cash Transfers Have Proper Fiscal Court Approval |

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable David Blair, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elliott County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Elliott County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Elliott County, Kentucky, prepares its financial statements in accordance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Elliott County, Kentucky, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.



To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
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Members of the Elliott County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Elliott County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 29, 2010, on our consideration of Elliott County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comment:

- 2009-01 The Fiscal Court Lacks Adequate Segregation Of Duties
- 2009-02 The Fiscal Court Should Maintain An Accurate And Complete Listing Of Fixed Assets
- 2009-03 The Fiscal Court Should Not Transfer Funds From The Library Bond Fund And Should Ensure Cash Transfers Have Proper Fiscal Court Approval

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 29, 2010

ELLIOTT COUNTY OFFICIALS

For The Year Ended June 30, 2009

Fiscal Court Members:

David Blair	County Judge/Executive
Billy Ray Wilson	Magistrate
Mitchell Oney	Magistrate
Kathy Adkins	Magistrate
Brian Dillon	Magistrate
Georgia Ison	Magistrate
Stanley Jenkins	Magistrate
Diane Penix	Magistrate

Other Elected Officials:

John Lewis, Jr.	County Attorney
Charlie Howard	Jailer
Reeda Ison	County Clerk
Jason Ison	Circuit Court Clerk
Ronnie Stephens	Sheriff
Lovell Mayse	Property Valuation Administrator
Mark Lewis	Coroner

Appointed Personnel:

Trina Sartaine	County Treasurer
Jimmy Adkins	Occupational Tax Collector
Barry Adkins	Finance Officer

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ELLIOTT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

ELLIOTT COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2009

	<u>Primary Government Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 208,955
Asset Held For Resale	<u>105,000</u>
Total Current Assets	<u>313,955</u>
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land and Land Improvements	233,000
Buildings	3,888,805
Other Equipment	432,519
Vehicles & Equipment	138,587
Infrastructure	<u>656,346</u>
Total Noncurrent Assets	<u>5,349,257</u>
Total Assets	<u>5,663,212</u>
LIABILITIES	
Current Liabilities:	
Bonds Payable	90,000
Financing Obligations Payable	<u>188,455</u>
Total Current Liabilities	<u>278,455</u>
Noncurrent Liabilities:	
Bonds Payable	2,890,000
Financing Obligations Payable	<u>1,383,893</u>
Total Noncurrent Liabilities	<u>4,273,893</u>
Total Liabilities	<u>4,552,348</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	901,909
Unrestricted	<u>208,955</u>
Total Net Assets	<u><u>\$ 1,110,864</u></u>

The accompanying notes are an integral part of the financial statements.

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ELLIOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2009

ELLIOTT COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Functions/Programs Reporting Entity	Expenses	Program	Net (Expenses) Revenues
		Revenues Received	and Changes in Net Assets
		Operating Grants and Contributions	Primary Government
			Governmental Activities
Primary Government:			
Governmental Activities:			
General Government	\$ 850,795	\$ 195,884	\$ (654,911)
Protection to Persons and Property	574,304	631,662	57,358
General Health and Sanitation	586		(586)
Recreation and Culture	84,574		(84,574)
Roads	1,271,516	1,210,998	(60,518)
Interest on Long-Term Debt	4,377	148,366	143,989
Total Governmental Activities	<u>2,786,152</u>	<u>2,186,910</u>	<u>(599,242)</u>
General Revenues:			
Taxes:			
Real Property Taxes			165,691
Personal Property Taxes			3,229
Motor Vehicle Taxes			44,707
Other Taxes			245,682
In Lieu of Tax Payments			23,480
Unrestricted Investment Earnings			555
Miscellaneous Revenues			194,054
Total General Revenues and Transfers			<u>677,398</u>
Change in Net Assets			78,156
Net Assets - Beginning (Restated)			<u>1,032,708</u>
			\$ 1,110,864

The accompanying notes are an integral part of the financial statements.

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ELLIOTT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

ELLIOTT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2009

	General Fund	Road Fund	Jail Fund	Library Bond Fund	Public Properties Corporation Fund	
ASSETS						
Cash and Cash Equivalents	\$ 18,106	\$ 42,202	\$ 20,959	\$ 115,381	\$ 2,955	.
Total Assets	<u>18,106</u>	<u>42,202</u>	<u>20,959</u>	<u>115,381</u>	<u>2,955</u>	:
FUND BALANCES						
Unreserved:						
General Fund	18,106					
Special Revenue Funds		42,202	20,959			
Debt Service Fund				115,381	2,955	.
Total Fund Balances	<u>\$ 18,106</u>	<u>\$ 42,202</u>	<u>\$ 20,959</u>	<u>\$ 115,381</u>	<u>\$ 2,955</u>	:

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2009
(Continued)

Road Improvement Bond Fund	Non- Major Funds	Total Governmental Funds
\$ 403	\$ 8,949	\$ 208,955
403	8,949	208,955
		18,106
	8,949	72,110
403		118,739
\$ 403	\$ 8,949	\$ 208,955

Reconciliation to Statement of Net Assets:

Total Fund Balances	\$ 208,955
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	7,936,068
Accumulated Depreciation	(2,586,811)
Asset Held For Resale	105,000
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(1,572,348)
General Obligation Notes	(1,405,000)
Bonds	(1,575,000)
Net Assets Of Governmental Activities	<u>\$ 1,110,864</u>

The accompanying notes are an integral part of the financial statements.

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ELLIOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

ELLIOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Library Bond Fund</u>
REVENUES				
Taxes	\$ 455,777	\$	\$	\$
In Lieu Tax Payments	23,480			
Licenses and Permits	1,216			
Intergovernmental	394,874	1,210,998	79,165	
Miscellaneous	95,873	95,052	3,129	125,000
Interest	95	324	25	56
Total Revenues	<u>971,315</u>	<u>1,306,374</u>	<u>82,319</u>	<u>125,056</u>
EXPENDITURES				
General Government	400,623			
Protection to Persons and Property	356,593		302,980	
General Health and Sanitation	586			
Recreation and Culture	49,098			
Roads		997,656		
Debt Service	17,707	58,724		124,581
Administration	325,557	77,907	6,449	
Total Expenditures	<u>1,150,164</u>	<u>1,134,287</u>	<u>309,429</u>	<u>124,581</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(178,849)</u>	<u>172,087</u>	<u>(227,110)</u>	<u>475</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	317,309	80,000	238,000	162,559
Transfers To Other Funds	<u>(167,759)</u>	<u>(308,486)</u>		<u>(162,559)</u>
Total Other Financing Sources (Uses)	<u>149,550</u>	<u>(228,486)</u>	<u>238,000</u>	
Net Change in Fund Balances	(29,299)	(56,399)	10,890	475
Fund Balances - Beginning	47,405	98,601	10,069	114,906
Fund Balances - Ending	<u>\$ 18,106</u>	<u>\$ 42,202</u>	<u>\$ 20,959</u>	<u>\$ 115,381</u>

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2009
(Continued)

Public Properties Corporation Fund	Road Improvement Bond Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 2,316	\$ 458,093
			23,480
			1,216
148,366		228,507	2,061,910
			319,054
33	11	11	555
<u>148,399</u>	<u>11</u>	<u>230,834</u>	<u>2,864,308</u>
			400,623
		3,746	663,319
			586
			49,098
			997,656
147,480	56,200	12,178	416,870
3,006			412,919
<u>150,486</u>	<u>56,200</u>	<u>15,924</u>	<u>2,941,071</u>
<u>(2,087)</u>	<u>(56,189)</u>	<u>214,910</u>	<u>(76,763)</u>
	56,200	1,000	855,068
		(216,264)	(855,068)
	<u>56,200</u>	<u>(215,264)</u>	
(2,087)	11	(354)	(76,763)
5,042	392	9,303	285,718
<u>\$ 2,955</u>	<u>\$ 403</u>	<u>\$ 8,949</u>	<u>\$ 208,955</u>

The accompanying notes are an integral part of the financial statements.

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**ELLIOTT COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2009

ELLIOTT COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2009

Net Change in Fund Balances - Total Governmental Funds	\$ (76,763)
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Amounts reported for governmental activities in the Statement of Activities are different because Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	534,371
Depreciation Expense	(505,829)
Book Value of Disposed Assets	(86,616)

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

Financing Obligations Principal Payments	127,993
Bond Principal Payments	<u>85,000</u>

Change in Net Assets of Governmental Activities	<u><u>\$ 78,156</u></u>
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TO THE FINANCIAL STATEMENTS**

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ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Elliott County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit (Continued)

Elliott County Public Properties Corporation:

The Elliott County Public Properties Corporation (Corporation) cannot be sued in its own name without recourse to the Elliott County Fiscal Court, who appoints a voting majority consisting of the fiscal court members and the County Attorney. The fiscal court is able to impose its will on the Corporation. The Corporation is created solely for the benefit of the fiscal court per KRS 58.18 to act as the agency in the acquisition and financing of any public project. The fiscal court has access to the Corporation's resources, is legally obligated to finance the debts of or provide financial support to the Corporation. The Corporation is financially accountable to the fiscal court. The component unit is blended within the financial statements of the county.

C. Elliott County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Elliott County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Elliott County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities are supported by taxes and intergovernmental revenues.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Major individual governmental funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Library Bond Fund - The primary purpose of the fund is to pay for the long-term debt of the Elliott County Public Library.

Public Properties Corporation Fund - The primary purpose of the fund is to pay the long-term debt of the Elliott County courthouse renovation debt.

Road Improvement Bond Fund - The primary purpose of the fund is to pay the long-term debt of the road improvement in Elliott County.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Fire Protection Fund, and Library Operating Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Fire Protection Fund, and Library Operating Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Library Bond Fund, Public Properties Corporation Fund and Road Improvement Bond Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings	\$ 25,000	10-75
Building Improvements	\$ 25,000	10-20
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-5
Infrastructure	\$ 20,000	0-50

G. Long-term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement.

When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Elliott County Public Properties Corporation Fund and the Road Improvement Bond Fund because the bond indentures and other relevant contractual provisions require specific payments to and from this fund annually. The Department for Local Government does not require these funds to be budgeted.

J. Jointly Governed Organizations

A jointly governed organization is an entity that results from a multi-governmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility of the participating governments. The Elliott, Morgan, and Rowan Counties Industrial Park (EMRC) meets the criteria noted above and is an organization jointly governed by the Kentucky counties previously mentioned.

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 233,000	\$	\$	\$ 233,000
Total Capital Assets Not Being Depreciated	233,000			233,000
Capital Assets, Being Depreciated:				
Buildings	4,495,529			4,495,529
Other Equipment	622,680	216,121	(194,000)	644,801
Vehicles and Equipment	180,452	118,750	(38,825)	260,377
Infrastructure	2,102,861	199,500		2,302,361
Total Capital Assets Being Depreciated	7,401,522	534,371	(232,825)	7,703,068
Less Accumulated Depreciation For:				
Buildings	(533,998)	(72,726)		(606,724)
Other Equipment	(299,063)	(30,301)	117,082	(212,282)
Vehicles and Equipment	(99,747)	(51,170)	29,127	(121,790)
Infrastructure	(1,294,383)	(351,632)		(1,646,015)
Total Accumulated Depreciation	(2,227,191)	(505,829)	146,209	(2,586,811)
Total Capital Assets, Being Depreciated, Net	5,174,331	28,542	(86,616)	5,116,257
Governmental Activities Capital Assets, Net	<u>\$ 5,407,331</u>	<u>\$ 28,542</u>	<u>\$ (86,616)</u>	<u>\$ 5,349,257</u>
<u>Governmental Activities:</u>				
General Government			\$ 37,253	
Protection to Persons and Property			30,404	
Recreation and Culture			35,476	
Roads, Including Depreciation of General Infrastructure Assets			<u>402,696</u>	
Total Depreciation Expense - Governmental Activities			\$ 505,829	

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt

A. First Mortgage Refunding Revenue Bonds, Courthouse Renovation

On November 16, 2006, the Elliott County Public Properties Corporation, a component unit of the Elliott County Fiscal Court, issued \$1,770,000 in First Mortgage Refunding Revenue Bonds, Series 2006, for the purpose of defeasing the First Mortgage Revenue Bonds, Series 2000. The 2000 series bonds were issued to renovate the existing courthouse facility. On May 1, 2000, the county entered into a lease agreement with the Administrative Office of the Courts in order to provide funding to meet annual debt service requirements. Interest on the bonds is payable semi-annually in September and March of each year commencing March 1, 2007. Principal payments are payable annually commencing March 1, 2007. As of June 30, 2009, the principal balance on these bonds was \$1,575,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 90,000	\$ 60,505
2011	90,000	57,355
2012	95,000	54,205
2013	95,000	50,880
2014	100,000	47,460
2015-2019	560,000	178,820
2020-2023	545,000	59,075
Totals	<u>\$ 1,575,000</u>	<u>\$ 508,300</u>

B. Financing Obligations – Courthouse Renovations

On September 27, 2001, the Elliott County Fiscal Court entered into a lease agreement with the Kentucky Area Development Districts Financing Trust to finance the completion of the renovation of the county's courthouse facility in the amount of \$240,000. The agreement requires two semiannual interest payments be made in March and September of each year. Principal payments are due in September of each year to be paid in full September 20, 2026. As of June 30, 2009, the principal balance remaining was \$205,000. Future lease principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 5,000	\$ 12,460
2011	5,000	12,220
2012	10,000	11,845
2013	10,000	11,345
2014	10,000	10,845
2015-2019	50,000	46,383
2020-2024	70,000	30,460
2025-2027	45,000	7,530
Totals	<u>\$ 205,000</u>	<u>\$ 143,088</u>

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

C. Financing Obligations – Library Fund

On December 20, 2001, the Elliott County Fiscal Court entered into a lease agreement with the Kentucky Area Development Districts Financing Trust for the construction of the Elliott County Public Library in the amount of \$1,510,000. Semiannual principal and interest payments are required in May and November of each year. As of June 30, 2009, the principal balance remaining was \$1,145,000. Future lease principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 65,000	\$ 59,454
2011	65,000	56,366
2012	70,000	53,090
2013	75,000	49,501
2014	80,000	45,585
2015-2019	450,000	159,403
2020-2022	340,000	29,137
Totals	<u>\$ 1,145,000</u>	<u>\$ 452,536</u>

D. General Obligation Road Improvement Notes

On May 24, 2007, the Elliott County Fiscal Court issued 1,405,000 in General Obligation Refunding and Improvement Notes, Series 2007, for the purpose of defeasing the General Obligation Road Improvement Bonds, Series 2005 and to payoff a bank note. The 2005 series bonds were issued for the blacktopping of new roads and resurfacing of old roads. Interest on the note is payable semi-annually in January and July of each year commencing January 1, 2008. One principal payment in the amount of \$1,405,000 is due on July 1, 2010. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$	\$ 56,200
2011	1,405,000	28,100
Totals	<u>\$ 1,405,000</u>	<u>\$ 84,300</u>

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

E. Financing Obligations - Vehicle

On February 7, 2008, the Elliott County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust to purchase a vehicle in the amount of \$19,987. The agreement requires 56 monthly payments at a 5.307% interest rate to be paid in full on October 20, 2012. As of June 30, 2009, the principal amount outstanding was \$15,987. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 4,000	\$ 708
2011	4,000	495
2012	4,000	283
2013	3,987	71
Totals	<u>\$ 15,987</u>	<u>\$ 1,557</u>

F. Financing Obligations - Tractor/Mower

On September 24, 2007, the Elliott County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust to purchase a tractor/mower in the amount of \$71,104. The agreement requires 84 monthly payments at a 5.334% interest rate to be paid in full on October 20, 2014. As of June 30, 2009, the principal amount outstanding was \$56,361. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 9,455	\$ 2,802
2011	9,940	2,340
2012	10,450	1,833
2013	10,986	1,297
2014	11,550	734
2015	3,980	115
Totals	<u>\$ 56,361</u>	<u>\$ 9,121</u>

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 4. Long-term Debt (Continued)

G. Financing Obligations - Vehicle

On March 25, 2008, the Elliott County Fiscal Court issued \$105,000 of Kentucky Area Development Districts Financing Lease Acquisition Program Certificates of Participation to purchase a truck. Interest on the certificates of participation is payable semi-annually in October and April of each year commencing October 1, 2007. One principal payment in the amount of \$105,000 is due on July 1, 2010. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2010	\$ 105,000	\$ 2,219
Totals	\$ 105,000	\$ 2,219

H. Financing Obligations - Grader

On May 28, 2008, the Elliott County Fiscal Court issued \$95,000 of Kentucky Area Development Districts Financing Lease Acquisition Program Certificates of Participation to purchase a grader. Interest on the certificates of participation is payable semi-annually in December and June of each year commencing December 1, 2008. On April 9, 2009, an early principal payment was made in the amount of \$50,000. As of June 30, 2009, the principal amount outstanding was \$45,000. Future principal and interest requirements are as follows:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2010	\$ 45,000	\$ 4,300
2011		4,300
Totals	\$ 45,000	\$ 8,600

I. Changes In Long-term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Notes	\$ 1,405,000	\$	\$	\$ 1,405,000	\$
Revenue Bonds	1,660,000		85,000	1,575,000	90,000
Financing Obligations	1,700,341		127,993	1,572,348	188,455
Governmental Activities					
Long-term Liabilities	\$ 4,765,341	\$ 0	\$ 212,993	\$ 4,552,348	\$ 278,455

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 5. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 29.50 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 6. Deferred Compensation

On February 24, 2000, the Elliott County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2009
(Continued)

Note 7. Insurance

For the fiscal year ended June 30, 2009, Elliott County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Prior Period Adjustments

The beginning net assets balance as of June 30, 2008, for the governmental activities of Elliott County Fiscal Court has been decreased by \$4,369 for prior year misstatements. The restated beginning net assets balance as of June 30, 2008, is \$1,032,708.

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ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009

ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2009

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 549,200	\$ 584,633	\$ 455,777	\$ (128,856)
In Lieu Tax Payments	7,500	23,480	23,480	
Licenses and Permits	1,000	1,000	1,216	216
Intergovernmental Revenue	192,198	409,457	394,874	(14,583)
Miscellaneous	9,200	98,812	95,873	(2,939)
Interest	500	500	95	(405)
Total Revenues	759,598	1,117,882	971,315	(146,567)
EXPENDITURES				
General Government	404,851	416,301	400,623	15,678
Protection to Persons and Property	148,324	367,206	356,593	10,613
General Health and Sanitation	2,200	2,285	586	1,699
Recreation and Culture	38,750	53,438	49,098	4,340
Debt Service	74,125	74,657	73,907	750
Administration	259,834	419,886	325,557	94,329
Total Expenditures	928,084	1,333,773	1,206,364	127,409
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(168,486)	(215,891)	(235,049)	(19,158)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	228,486	228,486	317,309	88,823
Transfers To Other Funds	(60,000)	(60,000)	(111,559)	(51,559)
Total Other Financing Sources (Uses)	168,486	168,486	205,750	37,264
Net Changes in Fund Balance		(47,405)	(29,299)	18,106
Fund Balance - Beginning		47,405	47,405	
Fund Balance - Ending	\$ 0	\$ 0	\$ 18,106	\$ 18,106

**Reconciliation of the Budgetary Comparison Schedule to Statement of
Revenues, Expenditures, and Changes in Fund Balances**

Total Expenditures - Budgetary Basis	\$ 1,206,364
Less: Debt Payments made to Road Improvement Bond Fund	(56,200)
Total Expenditures - Modified Cash Basis	<u>\$ 1,150,164</u>
Total Other Financing Sources (Uses) - Budgetary Basis	\$ 205,750
Less: Debt Payments transferred to Road Improvement Bond Fund	(56,200)
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ 149,550</u>

ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 899,661	\$ 1,271,981	\$ 1,210,998	\$ (60,983)
Miscellaneous	3,000	131,462	95,052	(36,410)
Interest	500	500	324	(176)
Total Revenues	903,161	1,403,943	1,306,374	(97,569)
EXPENDITURES				
Roads	558,564	961,894	997,656	(35,762)
Debt Service	9,550	59,550	58,724	826
Administration	106,561	159,277	77,907	81,370
Total Expenditures	674,675	1,180,721	1,134,287	46,434
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	228,486	223,222	172,087	(51,135)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			80,000	80,000
Transfers To Other Funds	(228,486)	(228,486)	(308,486)	(80,000)
Total Other Financing Sources (Uses)	(228,486)	(228,486)	(228,486)	
Net Changes in Fund Balance		(5,264)	(56,399)	(51,135)
Fund Balance - Beginning		5,264	98,601	93,337
Fund Balance - Ending	\$ 0	\$ 0	\$ 42,202	\$ 42,202

ELLIOTT COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2009
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 64,500	\$ 77,670	\$ 79,165	\$ 1,495
Charges for Services	1,000	1,000		(1,000)
Miscellaneous	200	5,558	3,129	(2,429)
Interest			25	25
Total Revenues	65,700	84,228	82,319	(1,909)
EXPENDITURES				
Protection to Persons and Property	209,400	305,947	302,980	2,967
Administration	16,300	22,350	6,449	15,901
Total Expenditures	225,700	328,297	309,429	18,868
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(160,000)	(244,069)	(227,110)	16,959
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	160,000	160,000	238,000	78,000
Total Other Financing Sources (Uses)	160,000	160,000	238,000	78,000
Net Changes in Fund Balance		(84,069)	10,890	94,959
Fund Balance - Beginning		10,069	10,069	
Fund Balance - Ending	\$ 0	\$ (74,000)	\$ 20,959	\$ 94,959

ELLIOTT COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2009

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**ELLIOTT COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2009

ELLIOTT COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2009

	Local Government Economic Assistance Fund	Fire Protection Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 8,462	\$ 487	\$ 8,949
Total Assets	<u>8,462</u>	<u>487</u>	<u>8,949</u>
FUND BALANCES			
Unreserved:			
Special Revenue Funds	<u>8,462</u>	<u>487</u>	<u>8,949</u>
Total Fund Balances	<u>\$ 8,462</u>	<u>\$ 487</u>	<u>\$ 8,949</u>

The accompanying notes are an integral part of the financial statements.

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ELLIOTT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2009

ELLIOTT COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2009

	Local Government Economic Assistance Fund	Fire Protection Fund	Library Operating Fund	Total Non-Major Governmental Funds
REVENUES				
Taxes	\$	\$ 2,316	\$	\$ 2,316
Intergovernmental	228,507			228,507
Interest	10	1		11
Total Revenues	<u>228,517</u>	<u>2,317</u>		<u>230,834</u>
EXPENDITURES				
Protection to Persons and Property		3,746		3,746
Debt Service	12,178			12,178
Total Expenditures	<u>12,178</u>	<u>3,746</u>		<u>15,924</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>216,339</u>	<u>(1,429)</u>		<u>214,910</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	1,000			1,000
Transfers To Other Funds	(209,000)		(7,264)	(216,264)
Total Other Financing Sources (Uses)	<u>(208,000)</u>		<u>(7,264)</u>	<u>(215,264)</u>
Net Change in Fund Balances	8,339	(1,429)	(7,264)	(354)
Fund Balances - Beginning	123	1,916	7,264	9,303
Fund Balances - Ending	<u>\$ 8,462</u>	<u>\$ 487</u>	<u>\$ 0</u>	<u>\$ 8,949</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable David Blair, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Elliott County, Kentucky, as of and for the year ended June 30, 2009, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated March 29, 2010. Elliott County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Elliott County Fiscal Court's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Elliott County Fiscal Court's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Elliott County Fiscal Court's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations as items 2009-01, 2009-02, and 2009-03 to be significant deficiencies in internal control over financial reporting.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not consider the significant deficiencies described above to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Elliott County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and is reported as item 2009-03.

The Elliott County Judge/Executive's responses to the findings identified in our audit are included in the schedule of comments and recommendations. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

March 29, 2010

**ELLIOTT COUNTY
COMMENT AND RECOMMENDATION**

For The Year Ended June 30, 2009

**ELLIOTT COUNTY
COMMENT AND RECOMMENDATION**

Fiscal Year Ended June 30, 2009

FINANCIAL STATEMENT FINDINGS:

2009-01 The Fiscal Court Lacks Adequate Segregation Of Duties

As a result of our audit, we noted a lack of segregation of duties exists over the following accounting functions: receipts collection and processing, record-keeping, disbursement processing, report preparation and reconciliations. Adequate segregation of duties would prevent the same person from having a significant role in each of these functions.

The County Treasurer prepares and deposits the receipts, posts to the ledgers, prepares reports from these ledgers for submission to the Department for Local Government (DLG), and performs the bank reconciliations.

To adequately protect the fiscal court against inaccurate financing reporting, we recommend the fiscal court separate the duties of preparing and depositing receipts, recording transactions, preparing reports, and reconciling bank accounts. If any of these duties cannot be segregated due to a limited number of staff, strong oversight should be provided over the employee responsible. The employee providing the oversight should document this.

County Judge/Executive David Blair's Response: When Funding becomes available we will look into hiring additional staff.

2009-02 The Fiscal Court Should Maintain An Accurate And Complete Listing Of Fixed Assets

An accurate and complete listing of fixed assets should be maintained by the fiscal court in order to timely complete the capital assets portion of the audit. When the county purchases a new vehicle or piece of equipment, etc., those items should immediately be added to the fixed asset listing. Likewise, when an asset is sold, it should be removed from the fixed asset listing. When an asset has been fully depreciated, it should remain on the fixed asset listing until disposal. The County should ensure that each new fixed asset item added has been recorded at the correct historical cost, and that annual depreciation is computed properly. We recommend the fiscal court maintain an accurate and complete listing of fixed assets.

County Judge/Executive David Blair's Response: We will work on keeping list up to date and accurate.

2009-03 The Fiscal Court Should Not Transfer Funds From The Library Bond Fund And Should Ensure Cash Transfers Have Proper Fiscal Court Approval

During our review of transfers we noted \$162,000 was transferred from the Library Bond Fund to various funds for operating purposes. SECTION 2 M – OBLIGATIONS OF THE COUNTY of the contract between the Kentucky Department of Libraries and Archives and the Elliott County Fiscal Court states “The county shall be responsible for the expenditure of all funds and an unauthorized or improper expenditure of funds or expenditure of funds other than in accordance with the terms of this agreement shall be deemed default of this agreement by the County”. The transfer of funds from the Library Bond Fund for operating purposes would not be a proper expenditure under the terms of the contract. Additionally, we also noted \$387,486 of cash transfers between funds did not have fiscal court approval as required by the County Budget Preparation and State Local Finance Officer Policy Manual. We recommend the County discontinue the transfer of funds from the Library Bond Fund in order to be in compliance with the terms of the library contract. We also recommend fiscal court approve cash transfers between funds and record approval in the fiscal court minutes.

ELLIOTT COUNTY
COMMENT AND RECOMMENDATION
Fiscal Year Ended June 30, 2009
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2009-03 The Fiscal Court Should Not Transfer Funds From The Library Bond Fund And Should
 Ensure Cash Transfers Have Proper Fiscal Court Approval

County Judge/Executive David Blair's Response: We will no longer borrow from the Library Bond Fund when cash flow is needed. We will borrow from Local Bank until Road funds become available in August of each year. All transfers will be approved and recorded in the fiscal minutes.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

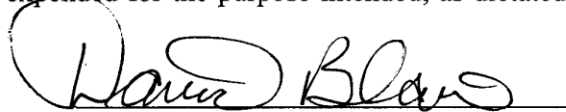
ELLIOTT COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2009**

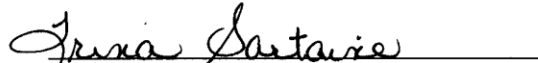
CERTIFICATON OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
ELLIOTT COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2009

The Elliott County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Fund was expended for the purpose intended, as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in cursive script, appearing to read "David Blair", written over a horizontal line.

David Blair
Elliott County Judge/Executive

A handwritten signature in cursive script, appearing to read "Trina Sartaine", written over a horizontal line.

Trina Sartaine
Elliott County Treasurer

